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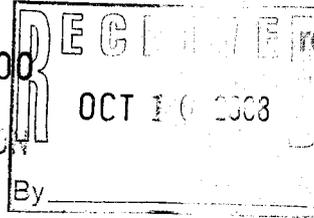
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Base Metals

AZ CORP COMMISSION
DOCKET CONTROL

BHP Copper Inc
200 S. Veterans Memorial Blvd
San Manuel, AZ 85631
PO Box M
Tel 520 385-3241 Fax 520 385-3810

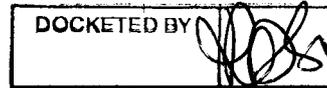
8 October 2008

Arizona Corporation Commission

DOCKETED

OCT 10 2008

Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007-2996



Re: Coronado Utilities and Potential Steps by BHP to Address Concerns Regarding Rate Shock in San Manuel, Docket Nos: SW-04305A-05-0086, SW-04305A-05-0087

Dear Honorable Commissioners:

Your letter dated August 27, 2008, requests that BHP Copper Inc. (BHP) pay for a subsidy extension or other rate mitigation measures for Coronado Utilities. We appreciate the Corporation Commission's concern over the impact to the community as a result of the rates established and approved by the Commission in Decision No. 68608. As this letter will describe, BHP has been a strong supporter of the San Manuel community. That support will continue, but we must respectfully decline your request for a further subsidy to Coronado.

BHP has spent more than \$1 million dollars supporting Coronado. As you acknowledge, BHP voluntarily subsidized the Commission-mandated "Phase 2" rates for a 12-month period following completion of the Wastewater Treatment facility in order to facilitate the three-part phase-in of the rates approved by the Commission. This direct subsidy amounted to \$191,000. In addition, BHP purchased \$570,000 in preferred shares in Coronado. This should reduce future rate increases by replacing high cost common equity with low cost preferred equity (the preferred stock is non-cumulative and has a dividend rate of 6.5%, which matches Coronado's bonding rate). The equity was necessary to satisfy the Commission Staff, who recommended increased amounts of equity despite the rate impact of adding high-cost equity. BHP's investment in preferred shares with a relatively low return was a creative way to satisfy Staff's equity requirements without increasing Coronado's capital costs - costs that would have been passed on to the customers in rates. To date, BHP has received no dividend on the preferred stock. In addition, BHP further subsidized the Wastewater Treatment facility transition by crediting Coronado with \$250,000 towards the purchase price and an additional \$310,000 in direct payments to secure the construction of a pipeline to provide treated effluent to the San Manuel Golf Course. The pipeline provides Coronado with a means of selling its effluent, which off-sets its need for rates from residential customers, while also helping preserve limited water resources. BHP also provided many in-kind donations of labor and equipment support to help with the transition.

BHP is proud of its long legacy of support in the San Manuel area. From the town's inception in the 1950s, housing and associated services were subsidized for the benefit of company employees and service providers. Even as the company-owned land and housing were gradually sold off throughout the

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1970s and 1980s, BHP's predecessors and BHP continued to provide subsidized wastewater services at a below-cost rate of \$48/year.

It has been almost 10 years since BHP suspended operations (June 1999). BHP announced the closure of the Mine site on January 15, 2002, and the Plant site on October 22, 2003, respectively. The closure of these two sites constitutes one of the largest integrated mine closure projects undertaken in the United States. Early on in this process, BHP publicly supported and attempted to facilitate the incorporation of the community of San Manuel to represent the community and receive donated assets during the transition to closure. BHP offered to donate significant properties within the community to an incorporated Town of San Manuel, including property designated for a wastewater treatment system. Unfortunately, a vocal group of opponents defeated this effort.

BHP's support for the vital functions, services, organizations and events of the community includes:

Access to water

- Subsidizing the costs associated with the delivery of water from BHP wells to the Arizona Water Company since 1955
- Paying for the water utility service to irrigate the San Manuel school Little League ballfields
- Recent installation of two new water wells, plus the planned infrastructure additions to support these new wells, which replace old wells at the end of their service life, at a cost in excess of \$2 million dollars with no pass through charges to San Manuel residents to ensure long-term potable water supply
- Providing irrigation water free of charge to the San Manuel golf course from 1972 to 2007

Additional support for utility services

- Paying the charges for the San Manuel city street lights (approximately \$20,000 annually)
- Funding the costs to extend electrical and water utility service to the San Manuel fire station
- Funding the costs to extend electrical, water and telephone service to the San Manuel Healthcare facility
- Funding the costs to provide independent electrical service to the San Manuel Airport
- Providing for routine landscaping of street medians along McNab Parkway

Additional donations to the community

- Donating land and buildings in the Tri-community, including the

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- Dialysis Center
 - Fire Department
 - Mammoth Ball field
 - Adelante Juntos land and building
 - Pinal County Administration building land
 - Pinal County Animal shelter land
-
- Making a legacy gift to the San Manuel School district in the amount of \$300,000
 - Donating to the BPO Elks Children's Christmas Party (\$3,000 annually)
 - Donating to the San Manuel High School Graduation Party (\$5,000 annually)
 - Providing financing for the "after schools program" (\$44,000 annually)
 - Funding 18 college scholarships at a cost of over \$175,000 (ongoing)
 - Providing \$20,000 to kick off the annual school educators and support programs
 - Donating over \$19,000 to the Mammoth Miners Memorial
 - Donating to the San Manuel library (\$3,600 annually)
 - Donating to support the San Manuel Fourth of July fireworks
 - Donating to the 'Adopt a Family' Christmas gift program (\$5,000 annually)
 - Donating 3,000 DVDs to the historical society (\$20,000)
 - Providing 'trash day' roll off bins for 30 months (\$90,000)
 - Donating legal services to the Archery Club and San Manuel School to acquire "501(c)(3)" status
 - Organizing and supporting the SMOR Chamber of Commerce through fundraising events (approximately \$30,000)

This list is representative, but not inclusive, of the subsidies and support that we have provided in the past and continue to provide the community.

As you can see, BHP has provided significant support to the San Manuel Community throughout the years and continues to do so. It is hard for BHP to believe that all involved, including the Commissioners, have decided to find issue with BHP and its efforts. It is a harsh reality that the mining operations were terminated and the mine closed and reclaimed. It is a further significant episode in the history of BHP's dedication to the San Manuel Community that it is committed to sustainable development in the area consistent with community needs and supportive of the environs.

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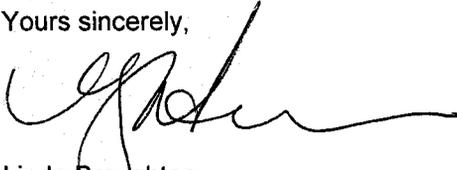
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As to future proceedings between the Commission and Coronado Utilities, BHP has decided not to intervene as a party but is supportive of Coronado and the Commission in the attempts to continue to provide the community of San Manuel with wastewater treatment.

We hope that this letter sufficiently responds to your letter of August 27, 2008. If you would like to discuss the matters further please contact me at 520-219-3547.

Yours sincerely,



Linda Broughton
General Manager, Reclamation and Closed Mines

cc:

Ernest Johnson
Brian McNeil
Coronado Utilities, Jason Williamson
Pinal County Supervisor Lionel Ruiz
State Senator Pete Rios
State Representative Rebecca Rios
State Representative Barbara McGuire

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